



AN EMPIRICAL STUDY ON RELATIONSHIP BETWEEN EARNINGS AND STOCK PRICE OF SELECTED COMPANIES OF INDIA

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ABSTRACT

Important key variables affecting the stock price of a company are supply and demand variables. Prices will definitely go up if there is more demand and more people start buying, and if there is more supply and more people start selling, the company's share price will go down. Government policies, the latest trends in the industry and the performance of the company and the potential people have an impact on the demand behavior of investors in the primary and secondary stock markets. The variables affecting the share price of equity shares can be seen from the macro and micro economic perspective. Macro-economic factors include politics, general economic conditions - i.e. how the economy performs, government regulations, etc. This research researcher has focused on studying the relationship between the earnings of a company and the momentum of the share price, to see the momentum of the share price. Based on the financial performance of the company. Researchers have selected three leading IT companies (Infosys Ltd., Wipro Ltd., Tata Consultancy Services Ltd.) to examine the relationship between earnings and share prices.

KEYWORDS: Stock price, Variable, Earning, Economy.

INTRODUCTION:

Equity is the lingering case or enthusiasm of the most junior class of speculators in resources, after all liabilities are paid. If liability exceeds assets, negative equity exists. Investors equity or investors equity or investors' assets or investors capital all are one and the same. They all speak to the rest of the enthusiasm for resources of an organization, spread among singular investors of normal or favored stock. In Equity Market, there are number of variables which impact the market cost of an offer. An investigation of which elements will influence and to what degree they influence the market equity causes a financial specialist to settle on a venture choice Knowledge of basic variables and their impact on equity share costs is useful to corporate, administration, government and speculators (Chandra, 1981). This Study tries to break down the different measurements in a quantitative system in enhancing the comprehension of offer costs and their determinants in widening the base of offer market, which may help with making a superior venture culture in the nation.

Investment is the most important fundamental component for the development of a nation, investment interprets the economy into a powerful economy. For the industry, this investigation identifies the factors that add to its growth in the examination with different industries. From an investor's point of view, the investigation encourages the financial expert to know the factors to consider when settling on the choice of speculation. An understanding of the determinants of offer fur costs is helpful in defining profit installments, reward presentation, appropriate issues, and so forth. Investments will similarly make better decisions and settle on smart and sound venture choices (Sachdeva, 1994, p. 5).

The most fundamental factors affecting the cost of equity shares are the supply and demand factors. Costs skyrocket at that stage when a large portion of the general population starts buying on a closed occasion and prices go down if individuals start selling. Government policies, firms and industry operations and the results required to solicit investment are in essential and supportive markets. The variables affecting the price of equity offer fur can be seen from a large scale and a small scale financial point of view. Full-scale financial components include government problems, general financial conditions - i.e. how the economy performs, government guidelines, and so on. At that time there may be various variables such as request and supply conditions which can be influenced by the execution of the company and obviously, by the execution of the company in the industry.

To the corporate administration a comprehension of the valuation component in stock market is essential for the sound financial management of the company. An comprehension of determinants of offer costs is helpful in the detailing of administration strategies identifying with profit instalment, reward affirmation, right issues, and so forth. Investment can likewise frame better judgments and settle on wise and sane venture choices (Sachdeva, 1994, p. 5).

Investment in equity share is a standout amongst the most fluid types of venture. Market cost of the offer is one the most vital factor which influences speculation choice of financial specialists. It is likewise recommended from the hypotheses that market cost of the offer relies on many variables, for example, procuring per share, profit per share, size of the firm etc, this is the most successive inquiry that most stock/alternatives merchants may have in their brains. Stocks equity changes because of market powers, i.e. purchasing and offering of the accessible

stocks in the market. The accompanying are the variables that effect or even anticipate the purchasing or offering of stock that at last influences stock costs of companies.

REVIEW OF LITERATURE:

FarisNasif AL-Shubiri observed that the stock cost changes often rely on the smaller and large monetary components of the scale. In his study, he performed clear and numerous relapse analyses and found that there is a profoundly positive correlation between the stock market price and the net asset value per share. In his review, Dr. Sanjeet Sharma broke down that earnings per share in a positive course are the most grounded determinants of market cost. In this way, before putting capital into a company, speculators are suggested to deal with earning per share variable in accounting. Malakar, B. in addition, Gupta, R., (2018) discovered that earnings per share are considered to be a notable determinant of the share price by taking into account the share costs of eight notable cement companies in India for the period 2008 to 2018 and five variables, namely the share price, dividend per share, earnings per share, retained earnings and revenue from sales proceeds. Tuli, Nishi and R.K. Mittal. (2014) led a cross-sectional analysis by taking into account the sales proportion of 105 organisations for the period 2015-16, and the benefit discovered for each bid was found to be enormous in evaluating the share price. Malhotra (2017) conducted a study of four undertakings, specific general engineering, cotton textiles, food products and paper spanning a four-year period from 2012 to 2015, and found that revenue for each offer had a positive and vital impact on advertisement value share cost Kumar and Hundal (2016) used the straight relapse show and analysed the effect of earnings per share on market price of share BalKrishnan (2014) connected relationship and numerous straight relapse strategies on 22 firms for the year 2012-13. Out of the five factors, earnings per share remained an insignificant stock price determinant.

RESEARCH OBJECTIVES:

The main objective of the study is

1. To examine the relationship between stock price and earnings of selected IT Companies of India.
2. To analyse the effect of earning on stock price of selected Companies.

HYPOTHESIS OF THE STUDY:

1. H₀ : There is no significant relationship between Stock Price and Earnings Per Share of selected Companies.

Ha : There is a significant relationship between Stock Price and Earnings Per Share of selected Companies.

2. H₀ : There is no significant impact of Earnings Per Share on Stock Price of selected Companies."

Ha: Alternate Hypothesis-"There is a significant impact of Earnings Per Share on Stock Price of selected Companies."

NEED OF THE STUDY:

The main purpose of this study is to find relationship between Stock Price and

Earnings of selected IT Companies of India. This study helps in identifying the relationship between Stock Price and Earnings selected IT Companies of India which helps the analyst to make an appropriate investment decision.

SCOPE OF THE STUDY:

The study is undertaken for three companies of IT industry of India.

RESEARCH DESIGN:

A research design is the specification of methods and procedures for acquiring the needed information. Design to be adopted here is exploratory research. It basically seeks to extract information about the influence and relationship between Stock Price and earnings of selected IT companies of India

SAMPLE SIZE:

3 IT companies of India has been taken under study Infosys Ltd, Wipro Limited, Tata Consultancy Services Limited.

TOOLS USED IN ANALYSIS:

The present study attempts to study the relationship between Stock Price and earnings of selected IT companies by using ANOVA.

DATA ANALYSIS:

1. RELATION BETWEEN STOCK PRICE AND PROFIT/LOSS FOR THE PERIOD

SUMMARY

Groups	Count	Sum	Average	Variance
Profit/Loss For The Period	5	72198.3	14439.66067	2423824.49
Stock Price	5	8175.817	1635.163333	72000.8632

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	409887879.9	1	409887879.9	328.458784	8.824E-08	5.317655
Within Groups	9983301.403	8	1247912.675			
Total	420171181.3	9				

$F_{cal} > F_{tab}$ and p -value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is relationship between stock price and profit/loss for the period

2. RELATION BETWEEN STOCK PRICE AND TOTAL REVENUE

SUMMARY

Groups	Count	Sum	Average	Variance
Total Revenue	5	357585.5	71517.10133	82616066.9
Stock Price	5	8175.817	1635.163333	72000.8632

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	12208713147	1	12208713147	295.295645	1.3378E-07	5.317655
Within Groups	330752271.1	8	41344033.89			
Total	12539465418	9				

$F_{cal} > F_{tab}$ and p -value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is relationship between stock price and total revenue

3. RELATION BETWEEN STOCK PRICE AND NET PROFIT MARGIN

SUMMARY

Groups	Count	Sum	Average	Variance
Net Profit Margin	5	103.0133	20.60266667	0.36888556
Stock Price	5	8175.817	1635.163333	72000.8632

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	6517015.366	1	6517015.366	181.025107	8.9254E-07	5.317655
Within Groups	288004.9285	8	36000.61607			
Total	6805020.294	9				

$F_{cal} > F_{tab}$ and p -value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that there is relationship between stock price and net profit margin

CONCLUSION:

Stock price movement influenced by many factors such as government policies, the global economy, the company's financial performance, the country's economic situation, big investments, mergers and acquisitions, and other macro and micro parameters. We have seen from this analysis the relationship between stock prices and IT companies' earnings. It can be inferred from the study that profit/loss for the year, earnings per share, total revenue and net profit margin are the variables affecting the movement of IT companies in India's stock prices.

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